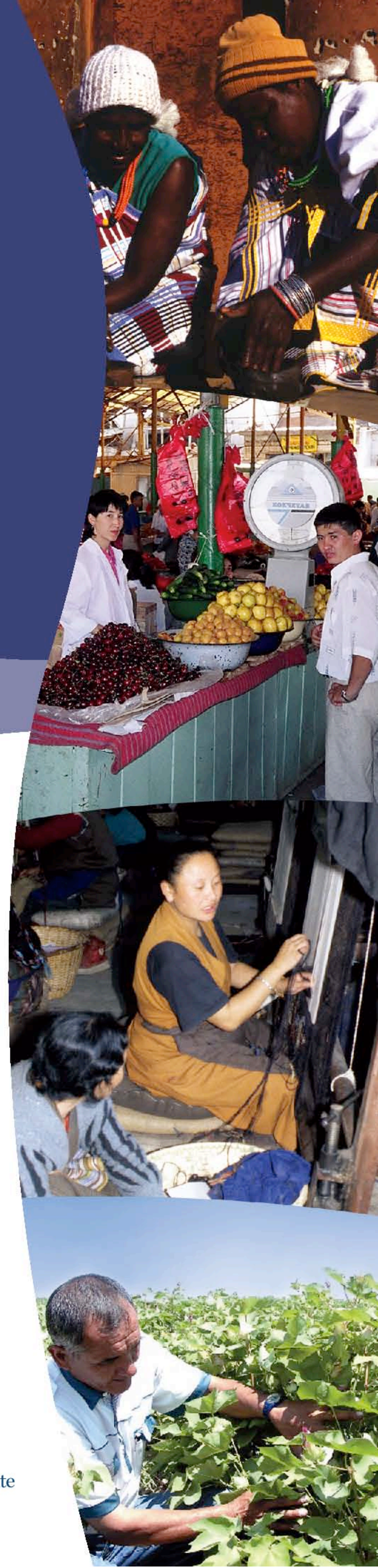
FIELD Report No. 8
Migrant-Backed Loans:

MOBILIZING REMITTANCES FOR ENTERPRISE FINANCE

Produced in collaboration with the FIELD-Support LWA



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WDI
William Davidson Institute
AT THE UNIVERSITY OF MICHIGAN

FIELD Report No. 8

Migrant-Backed Loans:

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October 2010

Acknowledgements

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**On July 1, 2011, FHI acquired the programs, expertise, and assets of AED.*

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Abstract

It is widely accepted that remittances that migrants send to their families in their home countries have several beneficial effects, such as helping households out of poverty, improving child school attendance, and facilitating investments. Despite the many positive effects on households, remittances to the home country are only a small fraction of how migrants' income is spent.

At the same time, it is well known that in countries with less developed financial institutions, entrepreneurs find it harder to obtain loans. This is especially troublesome for poor households seeking to establish or expand small businesses. They often cannot get loans because they lack the collateral required to get a loan, or because of the high interest rates they must pay (also partly related to lack of collateral).

The Migrant Backed Loan project was initiated with the aim to address both these issues: to encourage migrants to send more resources home, and to facilitate access to entrepreneurial finance. The new financial product designed in the course of this project, the migrant-backed loan (MBL), made it easier for poor households who want a loan—and do not have adequate collateral—to start a new business or expand an existing business. The innovation is to allow migrants to guarantee part of the loan. The migrant would make a deposit in their home country that would be "frozen" to guarantee the loan until it is repaid. This deposit will be "multiplied" by the bank, so the household will be able to borrow roughly twice the deposited amount being held in guarantee. As borrowers repay their loans, the deposits will be "unfrozen" and migrants will get their deposits back.

In undertaking this initiative, the William Davidson Institute has achieved success on several fronts. First, we facilitated a partnership between two financial institutions, in the US and Guatemala, to design and offer a unique financial product: a migrant-backed small enterprise loan. Second, we collected qualitative and quantitative data from potential customers that confirmed demand for the MBL product and provided insight into design of the product. Third, we shepherded both partners through the process of offering the first migrant-backed loans and set them on the path towards being able to continue offering them on an ongoing basis. Since both the U.S. and Guatemalan partner plan to continue making migrant backed loans, the project is likely to have a sustained impact beyond into the foreseeable future.

Background

Poor access to credit has long been considered a major obstacle to development, preventing entrepreneurs from adopting more profitable technologies and from using optimal levels of capital. Due to Guatemala's poor financial development, substantial numbers of entrepreneurs do not have access to finance. The country has an estimated 1.8 million potential microcredit users, 80% of whom have never received credit.

Microfinance institutions worldwide have engineered a revolution in access to finance for the poor. As In 2007, the Microcredit Summit Campaign reported that 3,316 microfinance institutions (MFIs) were reaching 133 million clients, 92million of whom were among the poorest when they took their first loan.[1] In 2002, the Microcredit Summit estimated that 2,572 microfinance institutions around the world have 67.6 million clients. At the same time, though, access to capital remains an important constraint on the ability of lending institutions to expand their client bases and to reach the poorest clients.

In Guatemala, 82.3% of microenterprises in households receiving remittances are financed by household resources. 4.6% are financed directly by remittances and 5.7% by a combination of remittances and household resources; only 2.3% are financed by bank credit. In addition, 76.3% of remittance-receiving households expressed a desire to start a new venture or expand an existing one. But 43.9% do not seek credit due to high interest rates, 9.1% because the procedure is too hard and 4.9% because they lack collateral for the loan (IOM 2005).

While large in magnitude, current remittance flows are just a fraction of the total resources of migrants from developing countries. For instance, in 2001 migrants from Guatemala sent home cash remittances of $0.6 billion. In that same year, however, estimated total personal income of Guatemalans living in the United States was $7.1 billion (U.S. Census 2000), which amounted to 37.8% of Guatemala's GDP. Cash remittances therefore amounted to just 8.4% of the total income of Guatemalans located in the U.S. In sum, the unremitted earnings of Guatemalan migrants in the US are a large potential source of capital for entrepreneurs in Guatemala.

Innovative financial instruments targeted towards international migrants from developing countries have the potential to channel migrant remittances toward microenterprise finance. In particular, in this project we tested the demand for a financial product—dubbed a migrant-backed loan (MBL)—that has the potential to encourage migrants to send more resources home and to channel those resources towards microenterprise finance.

The product developed via this initiative can have a substantial real-world impact. If the product can be offered profitably and at scale, lenders in Guatemala and worldwide would find it in their interest to offer migrant-backed loans more broadly, leading to an expansion of the pool of loanable funds available to microenterprises. Motivated by demonstrated development impacts, international funding institutions could provide seed funding to catalyze development of these facilities more broadly.

Description of the new financial product

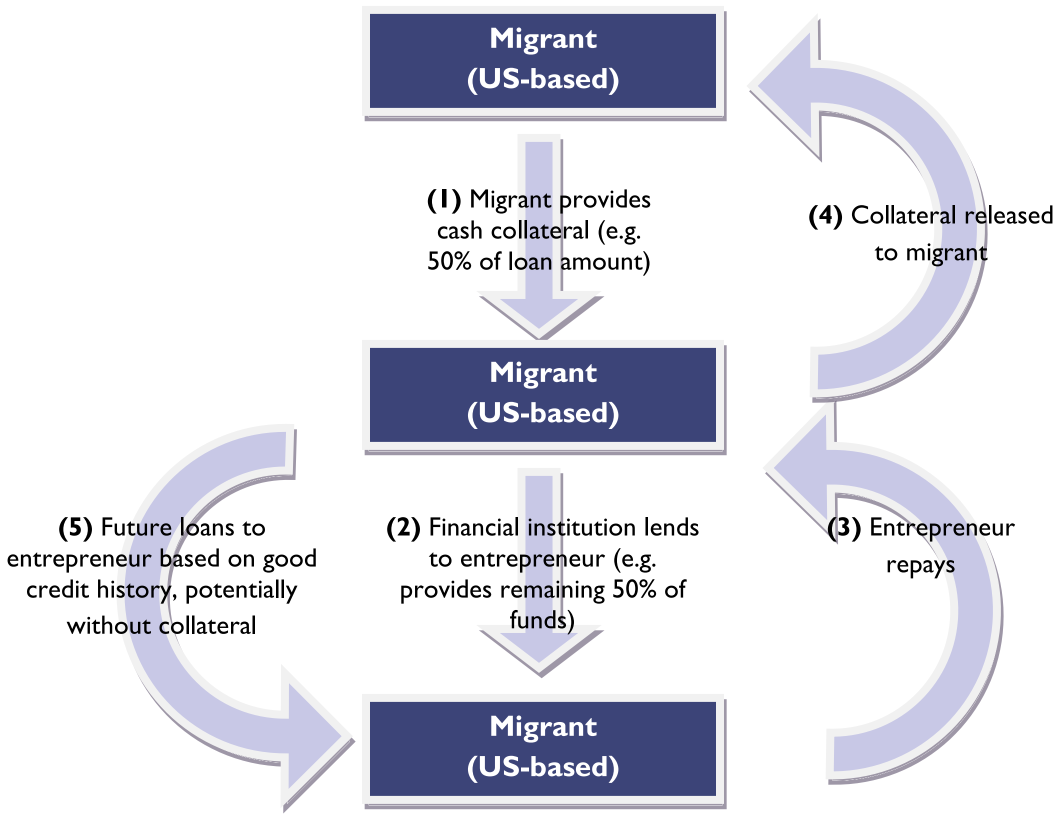
The migrant-backed loan (MBL) is an innovative financial facility that allows migrants in the United States to act as guarantors for micro- and small enterprise loans in Guatemala. The loan process, illustrated in Figure 1 below, involves allowing migrants in the U.S. to set up special savings accounts that serve as

[1] "State of the Microcredit Summit Campaign Report 2007." http://microcreditsummit.org/pubs/reports/socr/EngSOCR2007.pdf

collateral for a micro-enterprise loan in the country of origin. The accounts are set up in a home-country financial institution. Specifically, migrant-backed loans have the following characteristics:

- Loans are extended to a borrower in Guatemala designated by the U.S.-based migrant.
- The deposit made by the migrant in the special loan account is frozen.
- The borrower is then issued a loan in an amount greater than the amount placed in the special loan account. In this initiative, the fraction of the loan amount that the migrant provides is set at minimum of 50% of the initial amount disbursed.
- Once the loan is repaid, the special loan account funds are to be unfrozen.
- If the loan is not paid back in full, unpaid amounts will be deducted from the special loan account before being unfrozen.

Figure 1. Migrant-backed Microfinance Loan Mechanism



One of the benefits to migrants in this arrangement is that their loanable funds are "multiplied" because they only have to commit a portion of the amount of the loan. Furthermore, the intermediation of the financial institution can lead to higher and faster repayment by the borrower compared to cases where informal loans are made directly by migrants to borrowers. Borrowers would benefit by entering the formal banking system and having the opportunity to establish a good credit history. Once a borrower successfully repays one or more migrant-backed loans, they can become eligible to borrow from the lender independently (i.e., not backed by the migrant).

It is important that migrants provide collateral via an intermediary lender, instead of encouraging migrants to lend directly to individuals back home. In-depth interviews WDI conducted among US-based Guatemalans indicate that migrants rarely lend to individuals back home, often because they expect very low repayment rates. In related work conducted by WDI among US-based migrants from neighboring El Salvador, very few migrants lend directly to individuals back home. By contrast, Guatemalans in focus groups expressed enthusiasm for MBLs: they anticipate that the intermediation of a formal lender will raise loan repayment and allow them to recover their collateral. From an economic standpoint, this is a reduction in moral hazard due to the dynamic incentive provided by the prospect of future credit access.

In this pilot project, WDI facilitated a partnership between two institutions with complementary capabilities and expertise to offer the migrant-backed loan product: **Microfinance International Corporation (MFIC)** in the US and **ACREDICOM** in Guatemala. (See Annex A for a brief introduction to these organizations.)

MFIC is a Washington DC-based financial institution specializing in migrant remittances with branch offices in the US. MFIC assists US-based migrants with processing of loans, passes on documentation to ACREDICOM, and facilitates the transfer of migrant loan-guarantee funds into ACREDICOM deposit accounts. ACREDICOM, Guatemala's third-largest credit cooperative, holds migrants' loan-guarantee deposits, provides the loanable funds in Guatemala, and processes and manages loans for Guatemalan entrepreneurs. Box 1 provides a brief overview of ACREDICOM's application requirements.

Box 1. ACREDICOM's MBL Implementation

Loan amount	Q1,000 to Q10,000 (US$125 to $1,250)
Interest Rate	19%
Administrative Charges Fee	2%
Tenor	6-24 months
Collateral	Deposit/account balance with minimum of 50% of the amount initially disbursed
Activities	Agriculture and livestock, trade, housing, other

Requirements for applicants:

- Be registered as a cooperative partner (credit union member)
- Provide all necessary information to complete the application and sign it
- Be at least 18 years of age
- Provide all documentation requested
    - A copy of the *cédula de vecindad* or DPI (national forms of ID).
    - A copy of a utility bill or a proof of residence
- Provide written permission for the use of savings as collateral
- After information is verified and credit approved, sign the *Contrato de Mutuo*

Market Research Findings

For this project, WDI used both qualitative and quantitative approaches to collect data on potential clients of the migrant-backed loan product, both on the US side (potential loan guarantors) and the Guatemalan side (potential loan recipients).

Qualitative Research:

Qualitative data collection involved semi-structured focus group discussions (FGDs). The following FGD sessions were held, with a total of 92 participants across groups:

- Among US-based Guatemalan migrants (potential loan guarantors)
    - Two groups in Langley Park, MD on May 9, 2009 with a total of 20 participants
    - One group in Grand Rapids, MI on July 23, 2009 with a total of 12 participants
    - Two groups in Langley Park, MD on July 25, 2009 with a total of 16 participants
- Among small enterprise owners in Guatemala (potential loan recipients)
    - One (1) group in Jocotenango, Sacatepequez with 6 participants

- One (1) group in Huehuetenango City, Huehuetenango with 14 participants
- One (1) group in Quetzaltenango City, Quetzaltenango with 24 participants

Summary of Findings from the Qualitative Research:

Some of the key insights gained from the focus groups with **US-based migrants** included the following:

- Migrants showed a high level of sophistication in their thinking and questioning related to the loan facility. For example, in the discussion of the loan facility, migrants immediately probed the value of a bank-mediated loan facility, in comparison to an informal loan made directly from the migrant to the Guatemalan entrepreneur.
- The discussion among the migrants clearly revealed that one of the most attractive aspects of the migrant-backed loan facility is that it makes repayment of the loan much more likely. Many migrants said that they did not lend money themselves (informally) to borrowers in Guatemala because they viewed the likelihood of getting repaid as very low.
- It was clear that the loan facility only be attractive to migrants if the migrant was required to deposit only a fraction of the loaned funds (in other words, if the bank *multiplied* the deposited collateral)
- Several migrants indicated that they would find the facility more attractive if they earned interest on the funds deposited as collateral for the loan.

Key insights from the focus groups among **Guatemalan entrepreneurs**:

- Focus group participants in Guatemala were generally enthusiastic about this new potential opportunity to obtain funding/credit. However, some were skeptical due to the economic recession/slowdown in US/Guatemala.
- Most participants saw the bank involvement in the product as favorable. This was surprising. None had ever asked for a loan from a relative in the US, and several of them recognized that they never did it because they don't feel comfortable doing that, but this type of product would make them feel more comfortable.
- In terms of the marketing, participants mentioned that it would be important that the marketing be undertaken both in Guatemala and the US, so that their contacts feel more confident in the product.
- All participants agreed that a low interest rate was the most important product characteristic, when asked to choose among several key product characteristics (i.e. interest rate, tenor, amounts, etc.).
- In addition, several saw the MBL as an improvement over existing loan products, because it would be easier to get a loan when guaranteed by a migrant, compared to getting a loan through a standard process at a commercial bank which requires a cosigner (*fiador*), proof of income, etc.

Quantitative Research:

Quantitative data was collected in the form of fixed-response in-person surveys. The following survey datasets were created by the project, with a total of 370 observations across datasets:

- A survey of Guatemalan migrants in Washington, DC (potential loan guarantors) intercepted at the Langley Park, MD branch of Alante Financial (wholly-owned subsidiary of our project partner MFIC).
  - Survey implemented in Jan-Feb 2010
  - Sample size: 118 respondents
- A detailed survey of potential customers of our project partner ACREDICOM in Tejutla, Guatemala
  - Survey implemented Jan 2010
  - Sample size: 102 respondents
- A survey of customers of our project partner ACREDICOM in Tejutla, Guatemala
  - Survey implemented May-Jun 2010
  - Sample size: 150 respondents

Summary of Findings from the Quantitative Research:

Some of the key themes from the quantitative data are presented below. Box 2 and 3 on the following page provide a brief overview of the sample of respondents.

Key insights from responses from **US-based migrants** in the Washington DC area:

- Once the product was described, 71.9% said they would be interested in the migrant-backed loan product. This is particularly striking given that very few migrants had ever been a guarantor for a loan, either before coming to the US (6.8%) or after (1.7%).
- When asked what the advantages of this product might be, the most common responses were that it would "help the friend or family member" (37.3%) and that it would help create a credit history for the borrower in Guatemala (33.9%). When asked about the disadvantages of the product, 17.8% said that it was easier to send money directly to the Guatemalan entrepreneur, and 32.2% mentioned "lack of confidence in banks." Only 7.6% mentioned "risk for the guarantor."
- Generally, migrants were very positive towards MBL product characteristics such as the interest rate, loan duration, maximum loan amount, and the 50% migrant deposit to guarantee the loan. Migrants also said that they would be more interested in the MBL if the bank paid interest on their deposit (79.5%) and allowed them to use the loan guarantee account as a savings account (79.6%). Of these two possibilities, 63.7% of migrants said that using the account as a savings account was the more attractive option.
- 36.6% of migrants interested in the MBL said that the loan would represent a joint investment in the enterprise, while 43.6% said it would simply be a helping hand for the Guatemalan entrepreneur. (19.8% answered "don't know" to this question.)

Box 3. About the Sample: Survey respondents in Washington DC

- Migrants were overwhelmingly male (84.5%), young (average age 31.5 years), relatively poorly educated (69.8% with less than high school education), and recent arrivals in the US (mean years in the US was 6.4).
- About half (49.1%) were married or co-habitating, and among these 47% of partners lived in Guatemala. The mean number of children was 1.9, most living in Guatemala.
- The most common occupations in the US were construction (46.4%), food service (20.5%), and home/office cleaning (11.6%).
- 96.5% had sent remittances within the last 12 months. Typically recipients were parents (53.6%), spouse or life partner (18.8%), sibling (9.8%), and child (9.8%).
- The most common remittance frequencies were monthly (47.8%) and every two weeks (30.6%). Mean amount sent per remittance was $372.20.
- The most common reported remittance uses were food (78%) and education (11%).
- 33.3% had a bank account in Guatemala, and a similar share (36%) had one in the US.

Key insights from responses from **Guatemalan entrepreneurs**:

- Among individuals in Guatemala listed as possible beneficiaries (i.e. potential borrowers) of the MBL, the most common were the migrant's parent (43.4%), sibling (27.3%), spouse (13.1%), and child (11.1%). Migrants were already remitting to 89% of these identified beneficiaries, and 90.2% of respondents said that they expected to be involved in deciding how the funds would be used for the business if the beneficiaries became borrowers.
- Among Guatemalan respondents surveyed in Tejutla, San Marcos (ACREDICOM's target area) in January, 2010, when the MBL was explained to them, 79% of respondents reported that they were interested in the product.
- When asked what the advantages of a product like this were the most common responses were: the guarantor can help a family member (66%), the loan would help the client to build their credit

history (45%), and the loan would help the guarantor to invest in a project in Guatemala (38%). When asked what the disadvantages of a product like this were the most common responses were: that is was easier for the guarantor to send the money directly (30%) and a lack of benefits for guarantor (18%).

- In general the specific aspects of the loan product were well received, with more than half of respondents agreeing that the interest rate, loan maturity, and guarantee amount were reasonable.
- All respondents report having at least one close family member or friend living in the United States and 97% of respondents had received remittances from that person in the previous twelve months. 32% had more than one family member in the United States. More than half of respondents (57%) thought that their friend or family member in the US would be willing to sponsor them for a loan like this, and 28% did not know if they would be willing to sponsor them.

Box 4. About the Sample: Survey respondents in Tejutla, Guatemala

From survey administered in January 2010:

- Respondents were half female and half male with an average age of 45; education levels were low (72% had not finished primary school, and only 11% had more than a primary school education.)
- More than 75% of respondents live in rural areas.
- 84% report having their own business. Of these most are commerce-based (27%) or deal in agriculture/animals (68%).
- The mean years of operation reported for these businesses was 19 years. More than half (55%) have no employees, while 23% have three or more employees. Half of these businesses are self-categorized as micro-businesses.
- Of those with a business, 92% report that the lack of capital is an obstacle in running their business; and 15% report financing their businesses with remittances.
- Of those surveyed, 43% reported taking out a loan in the last five years. The majority (63%) of these loans were from Credit Cooperatives like ACREDICOM and the mean loan amount was approximately Q18,000 (US$2,250).
- When asked if they had borrowed money from a friend or relative in the US in the last five years, only 19% of respondents said "yes."

In addition, WDI performed a second shorter survey while marketing the project among ACREDICOM clients in six different branches, who were offered the product while WDI was administering the survey in late May and June of 2010. Approximately 37% of respondents were female; and the average age was 42 years, with a minimum of 19 and a maximum of 70. Only 19% of those surveyed had completed primary school and 26% had no schooling at all. The majority (55%) had attended, but not completed, primary school.

Many respondents (38%) reported that agriculture was their main source of income. As an example of the high importance of remittances in this area, 17% reported that remittances are their principal source of income. One third of respondents (33%) report owning their business; the vast majority of these businesses deal in commerce (48%) or agriculture and animals (35%). When asked whether they had applied for a loan from a formal financial institution within the past two years, 37% said that they had, and all but one person had been accepted.

An overwhelming 93% of the respondents report that they have a close relative living in the United States. This number should be interpreted with the caveat that one of the main reasons that people go to ACREDICOM branch is to pick up remittance payments, however it is widely recognized that the vast majority of people in the area have a close contact in the US. 88% of respondents have received a remittance payment from the United States in the last year. Overwhelmingly these payments come from children (57%), but people also receive money from their spouses (20%) and siblings (45%). 65% had received remittances from more than one person.

Validating the findings from the previous survey, when asked to indicate the two most common uses for the remittances they received the most popular responses were: food and other daily expenses (86%), education payments (26%), savings (31%), and other (27%). The most popular responses in the other category were money for home repairs and construction. Very few respondents (3%) reported using remittances for their businesses. Only 11% of those surveyed indicated that they had received help for their business from someone in the United States.

After the survey was completed, participants were told about the new loan product and asked whether they were interested. Marketers were instructed to only mark respondents as interested if the potential client felt there was a genuine possibility that they might eventually take the product up, as opposed to people who just felt that it was a "good idea." 28% of respondents fit into this category.

Marketing Pilot Results

WDI's approach was to market the product in the main areas within the department of San Marcos where ACREDICOM has coverage: Tacaná, San José Ojetenam, Ixchiguan, Concepciòn Tutuapa, Comitancillo, and in ACREDICOM's central branch in Tejutla. In addition, the team evaluated the possibility of developing a marketing effort in the US through MFIC. During the initial marketing stage of the project, marketers approached 535 individuals in person plus an additional 25 by phone, for a total of 560 individuals.

When ACCREDICOM faced a legal hurdle preventing the opening of accounts from abroad, the team adjusted the marketing strategy accordingly to more specifically target migrants with existing ACREDICOM accounts. In the second stage, marketers contacted 150 individuals, 138 of whom were thought to be likely to have a relative in the US with an existing ACREDICOM account. Of these individuals, 5 reached an advanced stage in the loan process, in that they made a formal loan application. One of these individuals later withdrew their application, two were not approved by ACREDICOM's credit analysis committee (they were judged not to have the capacity to repay the loan), and two individuals received the loan. In addition, there are 17 other individuals who are planning to apply for a loan and with whom ACREDICOM staff are currently following up.

Borrower Profiles

The first two MBL borrowers were from Comitancillo, San Marcos. Located in the western highlands of Guatemala, access to this area is rather limited: during the rainy season, it can only rely on one access road and it is common to need an all-terrain vehicle to get to many *aldeas*. Most people in this area are of Mam speaking Mayan origin. Most people in the area work in agriculture (corn, potato, *hortalizas* and peaches). A large fraction of the economically active population has migrated abroad, especially to the US, to work and send remittances; another small fraction of the population work as seasonal workers in coffee plantations in the south of the country.

Box 6. Borrower Profile: Romelia Pablo Coronado

- Relationship with migrant: Sister
- Languages: Mam and Spanish
- Credit amount: Q. 9,900.00 ($1,230)
- Term of credit: 12 months

Romelia Pablo Coronado is a housewife who lives in the remote aldea Taltimiche, in Comitancillo, San Marcos1. Thanks to the MBL, she will also be dedicating herself to raising livestock. Of the loan provided, Romelia used Q3,000 to buy a cow, Q1,500 to buy a pig and some additional funds to buy chickens. In addition, she will use about Q3,000 to make improvements to her home.

She expects the loan will help her earn more money as she will be able to have her own small family business raising animals – something her children can learn. She also expects the loan will help her to be less poor and have a better life, since in addition to the income, she will also have other activities to focus on. Furthermore, she believes the loan will also help her maintain closer communication and ties with her family members in the US, as they call more often to find out about the loan and the investments.

Box 6. Borrower Profile: Justina Coronado Pérez

- Relationship with migrant: Mother
- Language: Mam
- Credit amount: Q. 9,900.00 ($1,230)
- Term of credit: 12 months

Justina Coronado lives in the remote caserio *El Eden*, Aldea Tuilelen, Comitancillo San Marcos.[1] Justina dedicates herself to agriculture (wheat, vegetable and especially peach cultivation) and animal grazing.

With the funds Justina received from the MBL, she plans to buy 3 sheep and perhaps some chickens to grow and sell in the future. In addition, she plans to buy seeds and fertilizer in order to harvest peaches, wheat and vegetables.

Key Lessons

Reaching Customers: During the course of the project many important lessons were learned. One of the most important lessons is the special challenge of marketing a new product in a remote location. Effective marketing requires people with local knowledge who understand local customs and can gain the trust of potential customers. Under these circumstances, developing potential customers takes time. The team encountered many potential customers who intended to apply for a migrant-backed loan did not reach the application stage before the project ended. While MFIC and ACREDCIOM will continue to offer migrant backed loans, the project could have processed these borrowers more quickly had more funding been available. More resources would have allowed WDI to reach the target market in a timelier manner and provide support for the dispersal of migrant backed loans.

Market Demand: There is a high level of interest both among guarantors and borrowers for the migrant-backed loan product. However, it became clear that this interest was highly dependent on the features of the product. Market research indicated that the ability to leverage collateral funds was especially important, as was the interest rate of the loan. Thus offering a loan product that required a 100% guarantee would have little success in the market.

Financial Institution Partnerships: The financial crisis made it difficult to find a partner financial institution for this project. Financial institutions are hesitant to begin offering new loan products in a time of financial uncertainty. Despite this challenge two financial institutions were found willing to offer migrant backed loans. The key was to approach financial institutions that were offering related products to the targeted market for the migrant backed loans. In the future, identifying financial institutions to approach for partnerships should consider both the economic environment as well as the institutions characteristics.

An Enabling Environment: The project faced a significant obstacle when the process did not MBL receive approval from the *Intendencia de Verificación Especial* (IVE)[2]. Despite initial approval and enthusiasm, the IVE did not agree to the opening of accounts from abroad due to legal concerns that they would not be able to identify the individuals opening the account. ACREDICOM is working to define a mechanism that would allow migrants to open accounts from abroad while complying with Anti Money Laundering (AML) and Know Your Customer (KYC) policies. This legal obstacle initially restricted the number of potential guarantors to migrants in the U.S. the pilot could work with, however, once ACREDICOM clears this hurdle the potential number of clients will greatly expand and will present the opportunity to disperse many more loans.

[2] The *Intendencia de Verificación Especial* (Special Audit Office), is a special administrative unit within the Superintendencia de Bancos de Guatemala (Banking Superintendency) —internationally known as the Financial Analysis Unit (UAF)—that enforces laws related to money laundering and financing terrorism. Among other things, it is responsible for legal compliance with know your customer (KYC) and anti-money laundering (AML) policies.

Conclusion

The Migrant-Backed Loans pilot activity, implemented under FIELD-Support, developed and tested an innovative financial facility that allows migrants in the United States to act as guarantors for micro and small enterprise loans, or *migrant-backed loans.* The approach allows migrants in the U.S. to set up special savings accounts that serve as collateral for a micro-enterprise loan in the country of origin, for an individual designated by the migrant. This new product has the potential to encourage migrants to send more resources home and to channel those resources towards microenterprise finance, thereby expanding the pool of loanable funds available to microenterprises in developing countries. Market research conducted in both Guatemala and the US through the pilot demonstrated a high level of interest in and demand for the migrant backed loan product. One of the most important impacts of this pilot is the creation of this commercially viable loan product that has the support of financial institutions willing to integrate the loan instrument into their product line. ACREDICOM in Guatemala and US-based MFIC are now working together and have set up procedures to be able to offer MBLs in cases where migrants already have existing accounts at ACREDICOM. This has formed the basis for ACREDICOM and MFIC's continued cooperation.

Annex

Microfinance International Corporation (MFIC).

A key partner in the implementation of the project is Microfinance International Corporation (MFIC). MFIC's wholly-owned and operated subsidiary, Alante Financial, is a network of microfinance centers in the U.S. customized for unbanked immigrants. Through their ARIAS remittance settlement platform, Alante supports migrants' remittance needs, while providing remittance settlement technology to microfinance institutions. Alante has a network of 9 branches (including agents) in the DC-VA-MD area, plus another branch in Delaware. More important, MFIC's International Operations unit has substantial experience partnering with banks and microfinance institutions in Latin America to offer transnational loans to immigrants outside the country.

MFIC's innovation as a financial services company is to focus on the immigrant clientele. Their experience with the Latin market in the U.S. gives us a competitive advantage in offering products and services to transnational families. These families have emerged worldwide due to poor or uncertain economic prospects in developing countries, especially in rural areas. This has created migrant diasporas and has resulted in part of the family living and working in an industrialized nation and sending money to support family members who remain in their home countries. Unfortunately, many transnational families often live outside the purview of the formal financial system, both in their home countries and abroad, and have few opportunities to enhance their financial security and build assets.

MFIC recognizes that a huge potential market has been overlooked and therefore it focuses on providing competitively-priced financial products and services to transnational families. With its existing services and customer base, it is ideally positioned to be the broker of transnational loans linking the immigrant customer in the U.S. with a financial institution in the home country. Customers can enter any of MFIC's Alante Financial retail locations in the Washington DC region and Delaware, and apply to obtain financing for the purchase of land/property, for investing in the growth of a business or large-scale educational expenses for a family member through one of MFIC's partner institutions. MFIC undertakes an in-depth credit assessment of the borrower in the U.S., completes all the required verifications, and processes applications for its partner institutions. In addition to loans, MFIC also markets insurance and various other products for the families of its customers, through the Alante branches in the U.S.

MFIC's network of partnering financial institutions, comprised of MFIs, cooperatives, banks and regulated finance institutions, currently extends throughout Latin America. Within Guatemala, MFIC's network includes 11 financial institutions with a total of 1,580 branches throughout the country.

ACREDICOM

The "Cooperativa de Ahorro y Crédito *MOVIMIENTO CAMPESINO* del Altiplano R. L." (ACREDICOM) is a federated credit union located in Villa de Tejutla Villa, Department of San Marcos, Guatemala. It was founded in March 1973 and it is a member of FENACOAC (the National Federation of Credit Unions who operates in Guatemala as MICOOPE), which in turn is a member of the World Council of Credit Unions (WOCCU).

Members of ACREDICOM have 17 service points in San Marcos and Huehuetenango. (Tejutla, Tacaná, San Pedro Sacatepequez Comitancillo Tutuapa Concepción, San Miguel community, Ixchiguán, Sibinal, San Jose Ojetenan, Sipacapa, Rio Blanco, San Lorenzo, Old Tutuapa, Chilive tektites, and Huehuetenango Colotenango header.) However, all members of a credit union belonging to MICOOPE can use any of the 170 service points of the federated credit unions.

ACREDICOM is the third largest credit union in Guatemala, with approximately 60,000 members and US$65 million in assets. It is engaged in financial intermediation with a special focus on savings, credit and insurance products. In addition to remittances (ACREDICOM pays over 20% of the remittances of all credit unions in Guatemala), ACREDICOM also offers complementary financial services to its members, such as credit card and debit cards, and serving as a point of payment for electric power. ACREDICOM's microfinance project works especially (but not exclusively) with women, has over 4,000 beneficiaries, and has a portfolio of over Q.15MM (about US$1.875 million).

Since its founding, ACREDICOM has had a community focus and has been dedicated to the development of its members, providing unconditional support to community activities with partners. They currently have a Comprehensive Development Centre in La Pradera, Tejutla, San Marcos, where associates and members receive training.